

Message Text

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TO SECSTATE WASHDC IMMEDIATE 2823

US DEPARTMENT OF TREASURY WASHDC NIACT IMMEDIATE

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C O N F I D E N T I A L SECTION 1 OF 11 BRUSSELS 10233

LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

E.O. 11652: GDS

TAGS: EFIN, G-10, OECD, BE

SUBJECT: TECHNICAL COMMITTEE OF THE G-10 DEPUTIES RELATING TO
RECYCLING -- A DRAFT REPORT TO THE DEPUTIES

REF: BRUSSELS 9897

FOLLOWING IS TEXT DELIVERED BY JACQUES VAN YPERSELE (CHAIRMAN,
G-10 DEPUTIES' TECHNICAL COMMITTEE TO STUDY THE RECYCLING OF
PETRO DOLLARS) TO AMEMBASSY BRUSSELS EARLY EVENING DECEMBER 31.
THE PAPER IS TITLED:
DRAFT REPORT TO THE DEPUTIES OF THE GROUP OF TEN. A COVERING
LETTER STATES THAT THE COMMITTEE'S NEXT MEETING WILL BE AT THE
IMF BUILDING IN WASHINGTON AT 0900 ON JANUARY 9TH.

NOTE: WHERE SQUARE BRACKET OCCURRED IN ORIGINAL TEXT, WE USE A
SLASH THUS / IN OUR TEXT BELOW.

BEGIN TEXT, QUOTE:

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WORKING GROUP ON TECHNICAL STUDIES FOR STRENGTHENING FINANCIAL

AND MONETARY COOPERATION AMONG O.E.C.D. COUNTRIES DRAFT REOIRT
TO THE DEPUTIES OF THE GROUP OF TEN

INTRODUCTION

1. THE WORKING GROUP WAS SET UP BY A DECISION OF THE DEPUTIES OF
THE GROUP OF TEN TAKEN ON NOVEMBER 21, 1974.

2. THE MANDATE GIVEN TO THE WORKING GROUP BY THE DEPUTIES WAS:

"TO PREPARE TECHNICAL STUDIES FOR STRENGTHENING FINANCIAL AND
"MONETARY COOPERATION AMONG O.E.C.D. COUNTRIES, RECOGNIZING
"THE CENTRAL ROLE OF THE INTERNATIONAL MONETARY FUND IN THE
"FINANCING OF BALANCE OF PAYMENTS DEFICITS. THESE STUDIES
"SHOULD TAKE INTO ACCOUNT, INTER ALIA, THE SUGGESTIONS MADE
"BY THE GOVERNMENT OF THE UNITED STATES AND THOSE OF THE
"SECRETARY-GENERAL OF THE O.E.C.D., FOR SUPPLEMENTING FACI-
"LITIES AVAILABLE, OR PROSPECTIVELY AVAILABLE, IN THE INTER-
"NATIONAL MONETARY FUND AND THE EUROPEAN ECONOMIC COMMUNITY".

3. AFTER A FIRST BRIEF MEETING ON PROCEDURAL ARRAN-
GEMENTS HELD IN PARIS AFTER THE DEPUTIES MEETING ON NOVEMBER 21
THE GROUP MET THREE TIMES: ON 5TH, 6TH AND 20TH-21ST DECEMBER
1974 IN PARIS, AND ON 9TH JANUARY 1975 IN WASHINGTON. THE
COMPOSITION OF THE WORKING GROUP IS ATTACHED TO THE END OF
THIS REPORT.

4. THE RESULTS OF THE WORKING GROUP'S STUDIES ARE
SET OUT IN THIS REPORT WHICH INCLUDES A DRAFT OUTLINE OF AN
AGREEMENT ON FINANCIAL SUPPORT (SQUARE BRACKETS INDICATE THE
UNRESOLVED ISSUES) AND A COMMENTARY ON SOME OF THE PROVISIONS
INCLUDED IN THE DRAFT OUTLINE, ESPECIALLY ON THOSE WHERE
THERE ARE STILL UNRESOLVED ISSUES.

5. IT SHOULD BE NOTED THAT WHERE, IN THIS REPORT,
REFERENCE IS MADE TO VARIOUS DEGREES OF AGREEMENT OR DIS-
AGREEMENT ON SPECIFIC QUESTIONS, THIS IS SUBJECT TO TWO
IMPORTANT GENERAL QUALIFICATIONS. FIRST, AN AGREEMENT ON ANY
PARTICULAR POINT IS SUBJECT TO THE NATURE OF THE FINAL
PACKAGE. SECOND, MANY MEMBERS HAVE INDICATED THAT SINCE THE
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MECHANISM UNDER STUDY IS DESIGNED TO SUPPLEMENT OTHER SOURCES
OF FINANCE, AGREEMENT ON THE SCHEME DISCUSSED HERE, DEPENDS
ALSO ON DECISIONS TAKEN CONCERNING OTHER RECYCLING ARRANGE-
MENTS, IN PARTICULAR IN THE FRAME WORK OF THE INTERNATIONAL
MONETARY FUND.

SUBJECT OT THESE GENERAL QUALIFICATIONS, THE MAIN
ISSUES ON WHICH GUIDANCE MAY BE REQUIRED ARE AS FOLLOWS:

(I) THE OVERALL SIZE OF THE SUPPORT FUND.

(II) THE DISTRIBUTION OF PARTICIPANTS' QUOTAS.

(III) PROCEDURES GOVERNING THE GRANTING OF LOANS AND EXCEEDING NORMAL BORROWING LIMITS.

(IV) THE METHOD OF FINANCING LOANS : DIRECT CONTRIBUTIONS, BORROWING FROM THE MARKET BACKED BY MULTILATERAL GUARANTEES, OR THE POSSIBILITY OF EITHER, DEPENDING ON THE CIRCUMSTANCES.

(V) PROCEDURES GOVERNING OPTING-OUT AND THE MOBILISATION OF CLAIMS ON THE FUND.

PART ONE

DRAFT OUTLINE OF AN AGREEMENT ON FINANCIAL SUPPORT

I. AIMS OF THE AGREEMENT

1. THE PRINCIPAL AIMS OF THE AGREEMENT WILL BE TO INDUCE AND ASSIST PARTICIPATING COUNTRIES :

A) TO AVOID UNILATERAL MEASURES WHICH WOULD RESTRICT TRADE OR OTHER CURRENT ACCOUNT TRANSACTIONS, OR WHICH WOULD STIMULATE ARTIFICIALLY VISIBLE AND CURRENT INVISIBLE EXPORTS ;
AND

B) TO FOLLOW APPROPRIATE DOMESTIC AND INTERNATIONAL ECONOMIC POLICIES, INCLUDING ADEQUATE BALANCE OF PAYMENTS POLICIES AND COOPERATIVE POLICIES TO ENCOURAGE INCREASED PRODUCTION
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AND CONSERVATION OF ENERGY.

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SCHEME C:

20. FORM OF FINANCING : LOANS WILL NORMALLY BE FINANCED AS INDICATED IN SCHEME A. BUT THE GOVERNING COMMITTEE MAY DECIDE BY A / SIMPLE/ MAJORITY TO FINANCE ALL OR PART OF A LOAN AS INDICATED IN SCHEME B. IN CASE OF USE OF BOTH FORMS OF FINANCING, THE SUM OF A PARTICIPANT'S DIRECT CONTRIBUTION AND ITS TOTAL LIABILITIES UNDER THE GUARANTEE ARRANGEMENT WILL BE LIMITED TO ITS QUOTA.

21. OPTING OUT : THE RULES WILL BE AS INDICATED UNDER SCHEMES A OR B ACCORDING TO THE FORM OF FINANCING.

22. VOLUNTARY LENDING : A PARTICIPANT MIGHT, ON A VOLUNTARY BASIS, MAKE A CONTRIBUTION TO A LOAN BY THE FUND, OR UNDERTAKE GUARANTEES FOR THE FUND'S BORROWING, IN EXCESS OF ITS PROPORTIONAL SHARE ACCORDING TO ITS QUOTA, OR IN EXCESS OF ITS QUOTA.

V. MOBILISATION OF CONTRIBUTIONS

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23. A PARTICIPANT WITH A CREDITOR POSITION VIS-A- VIS THE SUPPORT FUND WOULD NORMALLY BE ABLE TO BORROW FROM THE B.I.S. UP TO AN EQUIVALENT AMOUNT (SEE APPENDIX, PARAGRAPHS

3-4). BEYOND THIS, IF A PARTICIPANT WHICH HAS MADE A CONTRIBUTION TO THE SUPPORT FUND WISHES TO MOBILISE ITS CLAIM BECAUSE ITS FINANCIAL SITUATION HAS DETERIORATED, IT SHOULD FIRST TRY TO ARRANGE WITH ONE OR MORE OTHER PARTICIPANTS TO TAKE OVER ITS CLAIM VOLUNTARILY. IF THIS DOES NOT PROVE POSSIBLE IT MAY REQUEST REPAYMENT OF ITS CONTRIBUTION ON THE GROUNDS THAT ITS CURRENT FINANCIAL SITUATION, OR ITS PROSPECTIVE SITUATION OVER THE NEXT 6 MONTHS, CORRESPONDS TO THE CONDITIONS REQUIRED FOR BORROWING FROM THE FUND SET OUT IN PARAGRAPHS 7 AND 8 ABOVE, OR HAS DETERIORATED SUBSTANTIALLY SINCE THE TIME IT MADE ITS CONTRIBUTION. SUCH A REQUEST WILL BE / ACCEPTED SUBJECT TO ANY DECISION TO THE CONTRARY BY A STRONG MAJORITY /

OR

/ GIVEN THE OVERWHELMING BENEFIT OF DOUBT /.

WHEN SUCH A REQUEST IS ACCEPTED THERE WOULD BE AN IMMEDIATE CALL ON THE OTHER PARTICIPANTS TO FINANCE THE SUPPORT FUND'S REPAYMENT, SUBJECT TO THE PROVISIONS FOR OPTING OUT UN PARAGRAPH 17 ABOVE.

VI. ACTION IN THE EVENT OF DELAYED REPAYMENT OR DEFAULT

24. IF THERE IS ANY DELAY, OR DEFAULT, IN MAKING THE REPAYMENTS OF A LOAN FROM THE SUPPORT FUND, IT WILL IMMEDIATELY CALL UP FUNDS TO THE EXTENT NECESSARY TO MEET ITS COMMITMENTS. IF THE FINANCING HAS BEEN THROUGH DIRECT CONTRIBUTIONS, THE NORMAL CALL UP AND OPTING OUT PROVISIONS (16-17 ABOVE) WILL BE APPLIED. IF THE FINANCING HAS BEEN THROUGH BORROWING IN CAPITAL MARKETS, BACKED BY GUARANTEES, THE GUARANTORS WILL BE CALLED ON TO PROVIDE THE NECESSARY FUNDS, IN PROPORTION TO THEIR GUARANTEES. IN EITHER CASE, IF THE CALL UP DOES NOT PRODUCE SUFFICIENT FUNDS - BECAUSE COUNTRIES OPT OUT, FAIL TO IMPLEMENT THEIR GUARANTEES, OR REACH THEIR QUOTA LIMITS - A SPECIAL CALL-UP, WITH NO OPTING-OUT, WILL BE MADE
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FROM COUNTRIES WHICH HAVE NOT REACHED THEIR QUOTA LIMITS.

25. IF THERE HAS BEEN OPTING OUT FROM DIRECT CONTRIBUTIONS, FAILURE TO IMPLEMENT GUARANTEES, OR VOLUNTARY LENDING, THE DISTRIBUTION OF THE FINANCING OF THE OUTSTANDING LOANS GRANTED BY THE FUND WILL NOT CORRESPOND TO THE SHARES IN THE ULTIMATE DEFAULT RISKS. THERE WILL BE ARRANGEMENTS TO BRING THE DISTRIBUTION OF THE FINANCING GRADUALLY INTO LINE WITH THE SHARES IN THOSE RISKS - AT LEAST BY CHANNELLING A PART OF THE REPAYMENTS RECEIVED BY THE FUND TO COUNTRIES WHICH ARE CONTRIBUTING IN EXCESS OF THEIR SHARE IN THOSE RISKS AND, IF NECESSARY, BY CALLING UP CONTRIBUTIONS FROM COUNTRIES WHICH

ARE CONTRIBUTING LESS THAN THEIR SHARE IN THOSE RISKS.

VII. CURRENCY DENOMINATION AND INTEREST RATES

26. THE CURRENCY OF DENOMINATION AND THE INTEREST RATES FOR THE FUND'S BORROWING AND LENDING WILL BE DETERMINED BY THE GOVERNING COMMITTEE IN THE LIGHT OF CONDITIONS AT THE TIME, TAKING INTO ACCOUNT THE FOLLOWING CONSIDERATIONS :

A) TO AVOID AN EXCHANGE RISK FOR THE SUPPORT FUND, THE FINANCING OF THE FUND AND LENDING BY THE FUND WILL, IN EACH OPERATION, HAVE THE SAME DENOMINATION ;

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B) UNDER A DIRECT CONTRIBUTION SCHEME, THE INTEREST RATE ON CONTRIBUTIONS WILL BE AT LEAST AS HIGH AS THAT AT WHICH THE PARTICIPANTS COULD INVEST THEIR FOREIGN EXCHANGE RESERVES. UNDER A GUARANTEE SCHEME, THE RATE FOR THE FUND'S BORROWING IN THE CAPITAL MARKETS WILL HAVE TO REFLECT CONDITIONS IN THE MARKETS ;

C) THE RATE CHARGED BY THE FUND ON A LOAN WILL BE DETERMINED

BY THE COST OF THE RELATED FINANCING. / NORMALLY THERE WILL BE A SMALL SPREAD BETWEEN THE SUPPORT FUND'S BORROWING AND LENDING RATES IN FAVOUR OF THE FUND, AND NET RECEIPTS OF INTEREST WOULD GRADUALLY INCREASE THE FUND'S WORKING CAPITAL /.

VIII. INSTITUTIONAL AND PROCEDURAL ARRANGEMENTS

27. DECISION-MAKING AND MANAGERIAL BODIES : A GOVERNING COMMITTEE WILL BE ESTABLISHED IN THE O.E.C.D., ON WHICH ALL PARTICIPANTS WILL BE REPRESENTED. IT WILL CONSIST OF SENIOR FINANCIAL OFFICIALS APPOINTED BY GOVERNMENTS. ITS CONFIDENTIAL

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DECISIONS WILL BE TAKEN BY / WEIGHTED MAJORITY VOTING/.

28. APPROPRIATE ARRANGEMENTS WILL BE MADE FOR LIAISON BETWEEN THIS COMMITTEE AND THE I.M.F., THE COMMISSION OF THE E.E.C. AND THE B.I.S.

29. THERE WILL ALSO BE A SMALL MANAGING BOARD, THE MEMBERS OF WHICH WOULD BE DESIGNATED BY GOVERNMENTS / IN THEIR CAPACITY AS EXPERTS /. THE BOARD WILL CONSIDER APPLICATIONS FOR LOANS, THE CONDITIONS AND TERMS OF LOANS AND THE MEANS OF FINANCING, MAINTAIN CONTACT WITH THE B.I.S. IF THE LATTER WAS INVOLVED IN THE FINANCIAL ARRANGEMENTS, ETC. CERTAIN DECISIONS, OF A TECHNICAL AND OPERATIONAL NATURE, COULD BE TAKEN BY THE MANAGING BOARD, BY A SIMPLE MAJORITY OF ITS MEMBERS PRESENT AND VOTING. ON ALL OTHER FINANCIAL MATTERS REQUIRING A DECISION UNDER THE AGREEMENT, THE BOARD WILL MAKE RECOMMENDATIONS TO THE GOVERNING COMMITTEE. IT WILL DECIDE ON THESE RECOMMENDATIONS BY A SIMPLE MAJORITY OF ITS MEMBERS PRESENT AND VOTING.

30. THE SECRETARIAT FOR THESE COMMITTEES WILL BE PROVIDED BY THE O.E.C.D.

31. LEGAL STATUS OF THE SUPPORT FUND : ANY BORROWING BY THE SUPPORT FUND IN NATIONAL OR INTERNATIONAL CAPITAL MARKETS, UNDER THE AGREEMENT, WILL BE IN THE NAME OF / THE O.E.C.D.) OR / THE SUPPORT FUND, WHICH WILL HAVE A SEPARATE LEGAL PERSONALITY /.

32. WORKING CAPITAL OF THE SUPPORT FUND : IF THE SUPPORT FUND IS TO BORROW ON THE MARKETS SOME WORKING CAPITAL WOULD BE NEEDED TO BACK UP ITS OPERATIONS. THIS CAPITAL WOULD BE ESTABLISHED BY A SMALL INITIAL ALLOCATION AND COULD THEN BE BUILT UP GRADUALLY IF THERE WAS A SMALL SPREAD BETWEEN THE SUPPORT FUND'S INTEREST RATES FOR BORROWING AND LENDING.

33. ENTRY INTO OPERATION OR FORCE : THE AGREEMENT
WILL BE SUBJECT TO RATIFICATION AND WILL ENTER INTO FORCE
WHEN SIGNATORIES REPRESENTING A / STRONG MAJORITY / OF THE
TOTAL VOTING POWER HAVE RATIFIED OR ACCEPTED IT. : THERE MAY
BE ARRANGEMENTS FOR BRINGING THE AGREEMENT INTO LIMITED OPERA-
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TION BEFORE RATIFICATION /.

34. LIQUIDATION RULES : ALL THE PROVISIONS CONCERNING
REPAYMENT OF OUTSTANDING LOANS, EPAYMENT OF CONTRIBUTIONS,
ETC. WILL REMAIN IN FORCE TO THE EXTENT NEEDED TO COMPLETE
REPAYMENTS OR LIQUIDATE THE SUPPORT FUND. ON THE DATE ON
WHICH THE LAST REPAYMENT TO THE SUPPORT FUND FALLS DUE, OR AT
AN EARLIER DATE IF SO DECIDED, THE SUPPORT FUND WILL BE LIQUI
DATED IN ACCORDANCE WITH RULES THE EFFECT OF WHICH WILL BE TO
CONVERT EACH PARTICIPANT'S CLAIM OR DEBT VIS-A-VIS THE SUPPORT
FUND INTO BILATERAL CLAIMS OR DEBTS DISTRIBUTED AMONG ALL THE
OTHER PARTICIPANTS IN PROPORTION TO THEIR QUOTAS.

APPENDIX TO THE OUTLINE

ROLE OF THE BANK FOR INTERNATIONAL SETTLEMENTS

1. THE B.I.S. CAN ENVISAGE A POSSIBLE ROLE FOR
ITSELF EITHER AS AN AGENT, OR AS A BANK, OR AS BOTH, ALONG
THE FOLLOWING LINES :

ROLE OF THE B.I.S. AS AGENT

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2. UNDER BOTH DIRECT CONTRIBUTION AND GUARANTEE ARRANGEMENTS THE B.I.S. COULD CARRY OUT THE FUNCTIONS OF AGENT TO THE SUPPORT FUND. IT IS ASSUMED THAT THE AGENT WOULD BE RESPONSIBLE FOR KEEPING THE BOOKS OF ACCOUNT OF THE SUPPORT FUND, FOR RECEIVING MONIES DUE TO THE SUPPORT FUND, FOR MAKING ALL PAYMENTS DUE FROM THE SUPPORT FUND, FOR MANAGING ANY SURPLUS FUNDS A THE DISPOSAL OF THE SUPPORT FUND AND FOR PERFORMING ALL OTHER AGENCY FUNCTIONS.

ROLE OF THE B.I.S. AS A BANK IN SCHEMES INVOLVING DIRECT CONTRIBUTIONS (SCHEMES A AND C)

3. THE B.I.S. CAN ENVISAGE ASSISTING, ON A BILATERAL BASIS, THE CENTRAL BANKS OF PARTICIPATING COUNTRIES TO FINANCE THEIR GOVERNMENT'S DIRECT CONTRIBUTIONS TO THE SUPPORT FUND, EITHER AT THE TIME THE CONTRIBUTION IS MADE OR SUBSEQUENTLY, BY GIVING THEM CREDITS IN CONVERTIBLE CURRENCIES.

4. THE B.I.S. ENVISAGES BEING ABLE TO PROVIDE SUCH FINANCING, SIMPLY ON THE BASIS OF THE RESOURCES AVAILABLE TO CONFIDENTIAL

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IT, UP TO A TOTAL OF, SAY, \$ 3 BILLION.

5. BEYOND THAT THE B.I.S.M WOULD HOPE TO BE ABLE TO PROVIDE FINANCING UP TO A FURTHER TOTAL OF PERHAPS \$ 3 BILLION, PROVIDED THAT THE CENTRAL BANKS IN QUESTION WERE ABLE TO FURNISH IT WITH STAND-BY FACILITIES FOR EQUIVALENT AMOUNTS.

6. CREDITS FROM THE B.I.S. WOULD PROBABLY NOT BE OF AS LONG AN ORIGINAL DURATION AS THE 5 - 7 YEAR PERIOD ENVI-SAGED FOR THE SUPPORT FUND'S LOAN. WHILE THE BANK WOULD ENDEAVOUR TO PROCURE LONGER-TERM FUNDS, THE CREDITS MIGHT BE GRANTED INITIALLY FOR PERIODS OF THREE OR SIX MONTHS, BUT WOULD IN PRINCIPLE BE RENEWABLE FOR THE ENTIRE TEM OF THE CONTRIBUTION BY THE COUNTRY CONCERNED TO THE SUPPORT FUND, IF THIS PROVED NECESSARY.

7. CREDITS FROM THE B.I.S. WOULD BE AVAILABLE TO PARTICIPATING COUNTRIES ONLY TO THE EXTENT THAT THEY WERE CREDITORS OF THE SUPPORT FUND. CONSEQUENTLY, IF A COUNTRY'S CREDITOR POSITION VIS-A-VIS THE SUPPORT FUND WAS REDUCED, BECAUSE THAT COUNTRY HAD MOBILISED ITS CLAIM ON, OR HAD BEEN GRANTED A LOAN BY, THE SUPPORT FUND, ANY RELATED B.I.S. CREDIT WOULD BE REPAYED.

POSSIBLE ADDITIONAL FUNCTIONS OF THE B.I.S. IN SCHEMES INVOLVING GUARANTEES (SCHEMES B AND C)

8. THE B.I.S. WOULD, IF REQUESTED, BE PREPARED TO ASSIST IN ARRANGING THE SUPPORT FUND'S BORROWING ON CAPITAL MARKETS, TRYING TO OBTAIN FUNDS WITH AS LONG MATURITIES AS POSSIBLE.

9. IN ADDITION, THE B.I.S. MIGHT BE ABLE TO ASSIST IN THE DEVELOPMENT OF A SECONDARY MARKET IN PAPER ISSUED BY THE SUPPORT FUND IN THE MARKETS.

10. THE B.I.S. MIGHT ALSO, IN CERTAIN CIRCUMSTANCES, BE ABLE TO SUPPLEMENT THE RESOURCES WHICH THE SUPPORT FUND WAS ABLE TO RAISE IN THE MARKETS.

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COMMENTARY ON THE DRAFT OUTLINE

AIMS

IT IS GENERALLY AGREED THAT THE AGREEMENT SHOULD ESSENTIALLY SERVE AS A "SAFETY NET" AND THAT IF ALL GOES WELL IT MIGHT NOT HAVE TO BE USED ON ANY SIGNIFICANT SCALE. IN KEEPING WITH THIS IDEA, IT IS AGREED THAT PARTICIPANTS WOULD NOT NORMALLY REQUEST ASSISTANCE UNDER THESE ARRANGEMENTS EXCEPT AS A LAST RESORT AFTER APPROPRIATE USE HAD BEEN MADE OF OTHER SOURCES OF FINANCE. SEVERAL MEMBERS OF THE GROUP FEEL THE AGREEMENT SHOULD ALSO BE REGARDED AS BACKING UP OTHER ARRANGEMENTS IN A WIDER SENSE.

SIZE OF THE FUND

MOST MEMBERS OF THE GROUP FEEL THAT THE SIZE OF THE SCHEME SHOULD NOT BE CONSIDERED IN TERMS OF COVERING A CERTAIN FRACTION OF THE SURPLUSES OF THE OIL-PRODUCING COUNTRIES, BUT RATHER WITH REGARD TO ITS CAPACITY TO PROVIDE ADEQUATE SUPPLEMENTARY ASSISTANCE TO POTENTIAL BORROWERS IN

ITS FUNCTION AS A "SAFETY NET". SOME MEMBERS OF THE GROUP FEEL THAT THE FIGURE OF \$ 25 BILLION SUGGESTED BY THE UNITED STATES AUTHORITIES IS OF THE RIGHT GENERAL ORDER OF MAGNITUDE. SOME FEEL THAT THE SIZE OF THE SCHEME SHOULD DEPEND ESSENTIALLY ON THE DECISIONS TAKEN ON THE 1975 OIL FACILITY IN THE I.M.F. AND THAT THE FIGURES SUGGESTED BY THE UNITED STATES ARE TOO HIGH. OTHERS FEEL THAT IF, AS SUGGESTED, THERE IS A FAIRLY RIGID UPPER LIMIT ON THE AMOUNT AN INDIVIDUAL PARTICIPANT COULD BORROW THE QUOTAS MAY BE TOO LOW.

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IT SHOULD BE NOTED THAT, IF BORROWING LIMITS ARE SET EQUAL TO LENDING LIMITS, QUOTAS TOTALLING \$25 BILLION WOULD ALLOW A MAXIMUM OF \$12.5 BILLION OF CREDITS. EVEN IF THE BORROWING LIMIT WERE RELAXED, MAXIMUM USE OF THE SCHEME WOULD BE VERY UNLIKELY TO GO MUCH BEYOND 50 PER CENT OF THE TOTAL OF QUOTAS BEFORE RUNNING INTO LIMITS ON THE LENDING SIDE. IN THE CASE OF A SCHEME BASED ON BORROWING FROM THE MARKET BACKED BY MULTILATERAL GUARANTEES, THE NEED TO PROVIDE SOMETHING LIKE 200 PER CENT COVER TO DEAL WITH THE POSSIBILITY OF DEFAULT BY A GUARANTOR WOULD ALSO REDUCE THE EFFECTIVE SIZE OF THE FUND TO AROUND 50 PER CENT OR LESS OF THE TOTAL OF QUOTAS.

DISTRIBUTION OF QUOTAS

WHILE IT IS AGREED THAT THE DISTRIBUTION OF QUOTAS SHOULD REFLECT BOTH A POTENTIAL NEED FOR FINANCIAL SUPPORT AND POTENTIAL ABILITY TO PROVIDE SUCH SUPPORT, SOME MEMBERS OF THE GROUP FEEL THAT, IN PRACTICE, THE MAIN WEIGHT SHOULD BE GIVEN TO ABILITY TO PROVIDE SUPPORT. OTHERS STRESSED THAT, IF THE QUOTAS OF POTENTIAL CREDITORS WERE TOO LARGE, THIS

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WOULD UNDULY REDUCE THE QUOTAS-AND HENCE THE BORROWING RIGHTS-OF POTENTIAL DEBTORS, WHEREAS IF THEY WERE TOO SMALL, THE AMOUNT OF FINANCE AVAILABLE WOULD BE INADEQUATE.

THE GROUP NOTED THAT A COUNTRY'S G.N.P. IS PROBABLY THE BEST SINGLE INDICATOR OF ABILITY TO PROVIDE SUPPORT, AND SEVERAL MEMBERS FEEL THAT THIS SHOULD BE TAKEN AS THE MAIN FACTOR DETERMINING THE DISTRIBUTION OF QUOTAS. OTHERS CONSIDER THAT WEIGHT SHOULD ALSO BE GIVEN TO THE IMPORTANCE OF A COUNTRY'S FOREIGN TRADE, WHICH IS A MEASURE OF BOTH ITS POTENTIAL NEED FOR FOREIGN EXCHANGE AND ITS ABILITY TO EARN FOREIGN EXCHANGE. OTHER FACTORS MENTIONED WERE OIL IMPORTS, AS AN INDICATION OF POTENTIAL NEED, AND FOREIGN EXCHANGE RESERVES (OR CHANGE IN FOREIGN EXCHANGE RESERVES), AS AN INDICATOR OF ABILITY TO PROVIDE SUPPORT.

THE WORKING GROUP DID NOT TRY TO REACH AGREEMENT ON THIS MATTER SINCE IT INVOLVES POLITICAL AS WELL AS ECONOMIC CONSIDERATIONS. THE DISCUSSIONS DID, HOWEVER, APPEAR TO INDICATE OPINIONS COVERING THE SORT OF FIGURES PRODUCED BY A FORMULA BASED ON G.N.P. AND FOREIGN TRADE WITH THE SUGGESTED WEIGHT FOR G.N.P. RANGING FROM 75 PER CENT DOWN TO 40 PER CENT OF THE TOTAL.

CONDITIONS FOR BORROWING

THE WORKING GROUP DOES NOT FEEL THAT IT WOULD BE PRACTICAL OR DESIRABLE TO LAY DOWN CONDITIONS GOVERNING ELIGIBILITY FOR BORROWING IN ADVANCE IN GREAT DETAIL. DECISIONS TO GRANT LOANS SHOULD BE BASED ON CERTAIN BROAD PRINCIPLES CONCERNING APPROPRIATE GENERAL ECONOMIC POLICIES, THE AVOIDANCE OF DISRUPTIVE BALANCE OF PAYMENTS ADJUSTMENT POLICIES, COOPERATIVE ENERGY POLICIES AND APPROPRIATE USE OF ALTERNATIVE SOURCES OF FINANCE, AS SET OUT IN PARAGRAPHS 7 AND 8 OF THE DRAFT OUTLINE. IT MAY BE NOTED THAT APPLICANTS WOULD BE EXPECTED TO HAVE MADE APPROPRIATE USE-BUT NOT NECESSARILY TO HAVE EXHAUSTED-ALTERNATIVE MULTILATERAL FINANCING ARRANGEMENTS, IN PARTICULAR THROUGH THE I.M.F., AND TO REFRAIN FROM UNDESIRABLE FORMS OF COMPETITION FOR FUNDS.

BORROWING LIMITS AND APPROVAL OF LOANS
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IT IS GENERALLY AGREED THAT BOTH A NORMAL AND A MAXIMUM LIMIT SHOULD BE SET TO THE AMOUNT ANY ONE PARTICIPANT CAN BORROW FROM THE FUND, AND THAT THESE LIMITS SHOULD BE RELATED TO THE PARTICIPANT'S QUOTA. THERE IS, HOWEVER, SOME DIFFERENCE OF VIEW WITHIN THE GROUP AS TO HOW STRINGENT THE VOTING REQUIREMENTS SHOULD BE FOR GRANTING LOANS BOTH WITHIN AND BEYOND THE NORMAL BORROWING LIMIT. THIS IS ILLUSTRATED BY THE ALTERNATIVES GIVEN IN PARAGRAPH 11 OF THE DRAFT OUTLINE.

THOSE IN FAVOUR OF THE LESS STRINGENT PROVISIONS FEEL THAT, ONCE IT HAS BEEN DECIDED TO WEIGHT COUNTRIES' VOTES BY THEIR QUOTAS, MOST OF THE NORMAL OPERATING DECISIONS OF THE FUND, INCLUDING THE GRANTING OF LOANS, SHOULD BE TAKEN BY A SIMPLE (WEIGHTED) MAJORITY. THEY ALSO FEEL THAT IF THE FUND IS TO BE OF REAL USE AS A LENDER OF LAST RESORT IT SHOULD BE POSSIBLE TO LEND A PARTICIPANT AN AMOUNT UP TO AT LEAST TWICE ITS QUOTA IN CASES OF EXCEPTIONAL NEED.

THOSE FAVOURING MORE STRINGENT PROVISIONS CONSIDER THAT THESE WOULD BE CONSISTENT WITH THE ESSENTIALLY CONDITIONAL NATURE OF THE ASSISTANCE AVAILABLE THROUGH THIS AGREEMENT, WHICH ALSO, IN THEIR VIEW, IMPLIES THAT ALL LENDING OPERATIONS SHOULD REQUIRE THE APPROVAL OF THE MAJOR CREDITORS.

THE METHOD OF FINANCING THE SUPPORT FUND

THE WORKING GROUP DISCUSSED AT SOME LENGTH THE RELATIVE MERITS OF FINANCING LOANS BY THE SUPPORT FUND THROUGH DIRECT CONTRIBUTIONS OR THROUGH BORROWING ON CAPITAL MARKETS, BACKED BY A MULTILATERAL GUARANTEE.

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C O N F I D E N T I A L SECTION 8 OF 11 BRUSSELS 10233

LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

VARIOUS ARGUMENTS WERE PUT FORWARD IN FAVOUR OF A METHOD IN WHICH EACH PARTICIPANT WOULD NORMALLY BE EXPECTED TO MAKE A DIRECT CONTRIBUTION TO EACH LOAN IN PROPORTION OF ITS QUOTA. IT WAS SUGGESTED THAT THIS FORM OF FINANCE WOULD BE MORE CREDIBLE AND THE MOST CONSISTENT WITH THE IDEA OF MUTUAL SUPPORT IN THE FACE OF COMMON DIFFICULTIES. IT WOULD BE MORE SIMPLE TO OPERATE, PARTICULARLY WITH REGARD TO DECISIONS CONCERNING INTEREST RATES AND THE SHARING OF EXCHANGE RISKS. IT WOULD NOT REQUIRE RECOURSE TO PRIVATE MARKETS WHERE IT MIGHT BE DIFFICULT TO OBTAIN FUNDS QUICKLY ON A SUFFICIENT SCALE, AND IT WOULD ALSO AVOID VARIOUS WELL KNOWN DISADVANTAGES WITH A GUARANTEE SYSTEM DISCUSSED BELOW.

MANY MEMBERS OF THE GROUP FEEL THAT THE MAJOR DISADVANTAGE OF FINANCING THROUGH DIRECT CONTRIBUTIONS IS THAT IT WOULD OBLIGE ALL COUNTRIES TO DRAW ON THEIR RESERVES AT A TIME WHEN SOME OF THEM, WHILE NOT ACTUALLY IN NEED OF A LOAN, WERE ONLY JUST MANAGING TO ATTRACT THE FUNDS NECESSARY TO KEEP THEIR EXTERNAL ACCOUNT IN BALANCE. SUCH COUNTRIES MIGHT FIND THEMSELVES PUSHED INTO THE POSITION OF HAVING TO

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REQUEST A LOAN FROM THE SCHEME; IF GRANTED, THESE LOANS MIGHT CREATE SIMILAR DIFFICULTIES FOR OTHER CONTRIBUTING COUNTRIES PROVOKING FURTHER REQUESTS FOR FULL LOANS, THUS LEADING TO A FAR GREATER USE OF THE SCHEME THAN WOULD COMPATIBLE WITH THE AIM OF MAKING IT A LAST-RESORT SAFETY NET. IN MORE GENERAL TERMS, IT WAS SUGGESTED THAT THIS MECHANISM WOULD BE CUMBERSOME IN CONDITIONS IN WHICH THE NEED WAS TO RECYCLE FUNDS FROM ONE OR A FEW COUNTRIES IN A STRONG EXTERNAL POSITION TO ONE OR MORE COUNTRIES IN NEED OF FINANCIAL ASSISTANCE.

THE MAIN ADVANTAGE SEEN FOR THE METHOD OF BORROWING FROM THE MARKET BACKED BY MULTILATERAL GUARANTEES IS THAT IT WOULD AVOID THE DIFFICULTIES JUST DISCUSSED. IT WAS ALSO SUGGESTED THAT THIS METHOD WAS MORE CONSISTENT WITH THE IDEA OF A RECYCLING MECHANISM; SINCE THE FUNDS IN QUESTION ARE LIKELY TO BE FOUND SOMEWHERE IN THE MONEY OR CAPITAL MARKETS OF THE PARTICIPATING COUNTRIES, IT WOULD BE BOTH LOGICAL AND FLEXIBLE. IN SOME COUNTRIES IT MIGHT ALSO BE EASIER TO OBTAIN THE NECESSARY LEGISLATIVE APPROVAL FOR THIS TYPE OF SCHEME.

MANY MEMBERS OF THE GROUP RECOGNISE THAT MULTILATERAL GUARANTEES ALSO HAVE VARIOUS DISADVANTAGES. FOR THE GUARANTEE TO BE EFFECTIVE, EACH PARTICIPANT'S CONTINGENT LIABILITIES HAVE SUBSTANTIALLY TO EXCEED ITS QUOTA SHARE IN THE LOAN, PARTICULARLY IF THE GUARANTEE HAS TO COVER BOTH PRINCIPAL AND INTEREST. THE INTEREST RATE THAT HAS TO BE PAID MAY BE HIGHER THAN WOULD BE IN THE CASE IF SOME COUNTRIES BORROWED IN THEIR OWN NAME. MORE GENERALLY, ONE OR TWO MEMBERS OF THE GROUP FEEL THAT WITH A GUARANTEE SYSTEM THERE MIGHT BE A SENSE IN WHICH THE PARTICIPANTS FELT THEY WERE GETTING SOMETHING FOR NOTHING AND THEREFORE THAT THE SCHEME WAS NOT ADMINISTERED WITH THE NECESSARY DEGREE OF DISCIPLINE; OTHERS DISAGREE WITH THIS VIEW.

AS A RESULT OF THESE DISCUSSIONS SOME MEMBERS OF THE GROUP HAVE COME TO FEEL THAT THERE WOULD BE ADVANTAGE IN HAVING A FLEXIBLE SCHEME WHICH LEAVES OPEN A CHOICE BETWEEN FINANCING THROUGH DIRECT CONTRIBUTIONS OR THROUGH MARKET BORROWING. THIS WOULD ENABLE THE FORM OF FINANCING TO BE ADAPTED TO THE ACTUAL SITUATION IN WHICH THE COUNTRIES FIND THEMSELVES. THERE MAY BE A SITUATION IN WHICH THE OIL FUNDS ARE FLOWING

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MAINLY TO ONE OR TWO COUNTRIES. OTHER FACTORS, SUCH AS RELATIVE MONETARY CONDITIONS, WILL ALSO BE INFLUENCING THE FLOW OF FUNDS BETWEEN PARTICIPATING COUNTRIES, WHOSE CURRENT ACCOUNT POSITION WILL ALSO DIFFER. THE NET OUTCOME OF THESE VARIOUS FACTORS MAY BE A SITUATION IN WHICH ONLY ONE OR TWO COUNTRIES ARE HAVING DIFFICULTY IN FINANCING THEIR EXTERNAL BALANCE WHILE THE OTHERS ARE ABLE TO OBTAIN ADEQUATE FINANCE ON REASONABLE TERMS; OR, ALTERNATIVELY, A SITUATION IN WHICH ONE OR TWO COUNTRIES FIND THEMSELVES IN AN EXTREMELY STRONG POSITION WHILE MOST OTHER COUNTRIES ARE EXPERIENCING DIFFICULTIES. IN THE FIRST CASE FINANCING THROUGH DIRECT CONTRIBUTIONS FROM MOST OF THE PARTICIPANTS WOULD BE THE MOST APPROPRIATE; IN THE SECOND CASE IT WOULD BE BETTER TO OBTAIN THE FUNDS FROM THE COUNTRIES IN A STRONG EXTERNAL POSITION THROUGH BORROWING IN THEIR CAPITAL MARKETS (OR, MORE INDIRECTLY, THROUGH BORROWING IN INTERNATIONAL MARKETS).

THE FOLLOWING POINTS EMERGED DURING THE DISCUSSION
OF THE THREE SCHEMES A, B AND C SET OUT IN THE OUTLINE.

SCHEME A

THE WORKING GROUP NOTES WITH INTEREST THAT THE B.I.S.
CAN ENVISAGE ASSISTING, ON A BILATERAL BASIS, THE CENTRAL
BANKS OF PARTICIPATING COUNTRIES TO FINANCE THEIR DIRECT
CONTRIBUTIONS IN SCHEMES OF TYPE A OR C. THIS SHOULD MAKE IT
CONSIDERABLY EASIER TO OBTAIN DIRECT CONTRIBUTIONS FROM A
LARGER NUMBER OF PARTICIPANTS. IT WOULD ALSO INTRODUCE AN
ELEMENT OF FLEXIBILITY IN THAT FUNDS BORROWED BILATERALLY
IN THIS WAY FROM THE B.I.S. WOULD OTHERWISE BE INVESTED IN
NATIONAL OR INTERNATIONAL MARKETS. MOREOVER, UNDER THESE
ARRANGEMENTS COUNTRIES WHICH HAD INITIALLY MADE A DIRECT
CONTRIBUTION OUT OF THEIR RESERVES WOULD UNDER CERTAIN CIR-
CUMSTANCES BE ABLE TO REFINANCE THIS CLAIM THROUGH THE B.I.S.

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C O N F I D E N T I A L SECTION 9 OF 11 BRUSSELS 10233

LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

MOST MEMBERS OF THE GROUP CONSIDER THAT WITH A
SCHEME BASED ON DIRECT CONTRIBUTIONS PROVISIONS ALLOWING SOME

COUNTRIES TO OPT OUT FROM MAKING SUCH CONTRIBUTIONS WOULD BE ESSENTIAL. VARIOUS ALTERNATIVES ARE SET OUT IN PARAGRAPH 17 OF THE OUTLINE. THERE IS A BROAD MEASURE OF AGREEMENT THAT COUNTRIES WHICH ARE DEBTORS VIS-A-VIS THE SUPPORT FUND SHOULD NORMALLY BE ALLOWED TO OPT OUT UNLESS THEIR FINANCIAL POSITION HAD IMPROVED SUBSTANTIALLY SINCE THE TIME AT WHICH THEY HAD BORROWED FROM THE FUND. BEYOND THIS THERE IS SOME DIFFERENCE OF VIEW BETWEEN THOSE WHO FEEL THAT OPTING OUT SHOULD BE DIFFICULT AND REQUIRE A STRONG OR VERY STRONG MAJORITY DECISION BY THE GOVERNING COMMITTEE, AND THOSE WHO FEEL THAT PARTICIPANTS SHOULD BE LEFT WITH A CONSIDERABLE DEGREE OF DISCRETION. IN THIS CONNECTION, IT SHOULD BE NOTED THAT THERE IS A CLOSE INTER-RELATIONSHIP BETWEEN THE PROVISIONS FOR OPTING OUT DISCUSSED HERE, AND THE PROVISIONS FOR MOBILISING CLAIMS ON THE FUND SET OUT IN PARAGRAPH 23 OF THE OUTLINE. THE EASIER IT IS FOR PARTICIPANTS TO MOBILISE THEIR CONTRIBUTIONS IN CASE OF NEED AT A LATER DATE, THE MORE WILLING THEY WILL BE TO MAKE CONTRIBUTIONS IN THE FIRST PLACE.

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IF THE DECISION TO ALLOW OPTING OUT IS GIVEN TO THE GOVERNING COMMITTEE, IT SHOULD TAKE VARIOUS FACTORS INTO CONSIDERATION, INCLUDING NOT ONLY THE CURRENT FINANCIAL SITUATION OF THE COUNTRY IN QUESTION BUT ALSO WHETHER IT COULD FINANCE ITS CONTRIBUTION THROUGH THE B.I.S. AND THE EXTENT TO WHICH IT HAD ALREADY HAD TO MAKE USE OF OTHER MULTILATERAL CREDIT FACILITIES THROUGH THE I.M.F. AND THE E.E.C.

SCHEME B

THE WORKING GROUP NOTES THAT THE B.I.S. WOULD BE PREPARED TO ASSIST IN ARRANGING BORROWING BY THE SUPPORT FUND IN THE MARKET IN VARIOUS WAYS. SEVERAL MEMBERS OF THE GROUP ARE DISAPPOINTED THAT THE B.I.S. HAS NOT ENVISAGED TAKING A MORE ACTIVE ROLE IN THIS RESPECT AND HOPES THAT THIS QUESTION CAN BE CONSIDERED FURTHER.

AS NOTED EARLIER, IN THE CASE OF BORROWING FROM THE MARKET BACKED BY MULTILATERAL GUARANTEES THERE IS NEED TO PROVIDE COVER FOR THE CONTINGENT LIABILITIES IN THE CASE OF DEFAULT BY A GUARANTOR. THE NEED FOR SUCH ADDITIONAL COVER TO ENSURE THAT SOME PARTICIPANTS' LIABILITIES COULD NOT EXCEED THEIR QUOTA LIMITS WILL LIMIT THE AMOUNT THAT CAN BE BORROWED TO SOME FRACTION ONLY OF THE TOTAL NORMAL AMOUNT OF QUOTAS, AND RENDER HEAVY USE OF THE FUND INCREASINGLY DIFFICULT.

ONE OR TWO MEMBERS OF THE GROUP, WHO ATTACH GREAT IMPORTANCE TO CHANNELLING SURPLUS OIL FUNDS INTO LONG-TERM

INVESTMENTS, FEEL THAT THE AGREEMENT SHOULD BE FRAMED WITH THIS END IN MIND, AD THAT PROVISION SHOULD BE MADE IN A SCHEME OF TYPE B OR C FOR DIRECT BORROWING FROM THE OIL PRODUCING COUNTRIES. MOST MEMBERS OF THE GROUP, HOWEVER, FEEL THAT THIS QUESTION IS BETTER HANDLED THROUGH OTHER ARRANGEMENTS AND THAT A PROVISION OF THIS KIND COULD CREATE AN UNDESIRABLE AMOUNT OF OVERLAPPING BETWEEN DIFFERENT SCHEMES.

SCHEME C

MOST OF THE CONSIDERATIONS DISCUSSED ABOVE ARE ALSO
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RELEVANT TO A SCHEME IN WHICH A CHOICE IS POSSIBLE BETWEEN DIRECT CONTRIBUTIONS AND MARKET BORROWING. THIS APPLIES IN PARTICULAR TO THE NEED FOR PROVISIONS DEALING WITH OPTING OUT FROM CONTRIBUTING AT THE TIME OF A LOAN, OR MOBILIZING A CONTRIBUTION AT A LATER DATE. IT ALSO APPLIES TO THE NEED TO PROVIDE ADDITIONAL COVER TO MEET CONTINGENT LIABILITIES WHEN IT IS DECIDED TO FINANCE A LOAN THROUGH BORROWING IN THE MARKET. THE GROUP DISCUSSED THE POSSIBILITY THAT COUNTRIES' QUOTAS MIGHT BE AUTOMATICALLY INCREASED BY SOME FRACTION OR MULTIPLE OF ANY MARKET BORROWING, BUT REJECTED THIS AS BEING UNNECESSARILY COMPLICATED. IT WOULD BE SUFFICIENT TO REQUIRE THE GOVERNING COMMITTEE TO KEEP THE ADEQUACY OF THE QUOTAS IN RELATION TO THE ACTUAL AND POTENTIAL LIABILITIES OF THE FUND RESULTING FROM THE METHODS OF FINANCING USED UNDER REGULAR REVIEW.

SEVERAL MEMBERS OF THE GROUP STRESS THAT SCHEME C SHOULD NOT BE REGARDED AS A COMPROMISE, BUT IS IN THEIR VIEW BOTH SOMEWHAT DIFFERENT FROM, AND AN IMPROVEMENT ON, EITHER SCHEME A OR SCHEME B. INDEED THERE WAS RATHER WIDESPREAD INTEREST IN THE FLEXIBILITY PROVIDED BY SUCH A SCHEME.

FIRST, AS NOTED EARLIER, IT CAN BE ADAPTED TO DEAL WITH SITUATIONS IN WHICH IT IS ONLY ONE OF TWO COUNTRIES WHICH ARE IN DIFFICULTY, OR, ALTERNATIVELY, IN WHICH ONE OR TWO COUNTRIES ARE IN AN EXCESSIVELY STRONG POSITION. SECOND, SCHEME C SEEMS TO SOME TO BE BETTER FROM THE OPERATIONAL POINT OF VIEW. IF THE AGREEMENT IS TO SERVE AS AN EFFECTIVE SAFETY NET, IT MUST, IF NECESSARY, BE ABLE TO RAISE LARGE SUMS OF MONEY QUICKLY. IN PRACTICE, THESE CAN ONLY BE FINANCED IN THE SHORT RUN THROUGH DRAWING ON EXCHANGE RESERVES OR BORROWING FROM THE B.I.S. INITIALLY, THEREFORE, THE FUND, IF IT IS TO SERVE ITS PRIMARY PURPOSE, MAY NOT BE ABLE TO AVOID FINANCING MEDIUM TERM LOANS THROUGH WHAT ARE ESSENTIALLY SHORT TERM FUNDS. OVER TIME, HOWEVER, AND AS MARKET CONDITIONS EVOLVE, IT WOULD BE BOTH POSSIBLE AND DESIRABLE WITH SCHEME C TO SHIFT THE FINANCING ON TO A LONGER TERM BASIS.

MOBILISATION OF CONTRIBUTIONS

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C O N F I D E N T I A L SECTION 10 OF 11 BRUSSELS 10233

LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

SEVERAL MEMBERS OF THE GROUP CONSIDER THAT, IF IT IS MADE RELATIVELY EASY FOR PARTICIPANTS TO MOBILISE THEIR CONTRIBUTIONS IN CASE OF NEED, EITHER BY BORROWING FROM THE B.I.S. OR REPAYMENT BY THE FUND, THIS WILL CONSIDERABLY INCREASE THE NUMBER OF COUNTRIES ABLE TO MAKE CONTRIBUTIONS IN THE FIRST PLACE, WHICH THEY REGARD AS VERY DESIRABLE.

OTHER MEMBERS ARE CONCERNED THAT THE EASIER IT IS TO MOBILISE CONTRIBUTIONS, THE MORE THEY WILL BE REGARDED AS RELATIVELY LIQUID ASSETS BY CONTRIBUTORS, AND THAT THIS MIGHT IMPART SOME INFLATIONARY BIAS. VARIOUS ARGUMENTS WERE PUT FORWARD AGAINST THIS VIEW. FIRST, LOANS BY THE FUND WOULD BE CONDITIONAL AND THE FUND CAN ATTACH ECONOMIC POLICY CONDITIONS TO ITS LOANS. SECOND, IT IS POSSIBLE THAT THE FINANCING OF LOANS MAY INDIRECTLY INVOLVE MOBILISING FUNDS INVESTED AT SHORT TERM BY THE OIL PRODUCERS ; BUT IN PRACTICE MUCH OF THIS MONEY CANNOT BE SPENT ON CURRENT GOODS AND SERVICES FOR SOME YEARS TO COME BECAUSE OF THE LOW ABSORPTIVE CAPACITY OF SOME OF THE MORE IMPORTANT OIL-PRODUCING COUNTRIES. FINALLY, SOME

MEMBERS OF THE GROUP POINT OUT THAT IT IS PRECISELY BECAUSE
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THERE COULD BE SOME TENDENCY TO DOUBLE COUNT CLAIMS ON THE
FUND AND RESOURCES MADE AVAILABLE BY THE FUND THAT THEY FAVOUR
SCHEME C UNDER WHICH IT WOULD BE POSSIBLE OVER TIME TO TRANS-
FORM THE INITIAL FINANCING INTO LONGER-TERM FORMS.

DELAY, OR DEFAULT, IN REPAYMENTS TO THE SUPPORT FUND

IT IS AGREED THAT, IN THE EVENT OF ANY DELAY, OR
DEFAULT, IN REPAYMENTS OF LOANS FROM THE SUPPORT FUND, THE
FUND SHOULD MEET ITS COMMITMENTS BY CALLING UP CONTRIBUTIONS,
OR CALLING ON GUARANTORS TO IMPLEMENT THEIR GUARANTEES. IF
THIS DOES NOT PRODUCE SUFFICIENT FUNDS, BECAUSE CONTRIBUTORS
OPT OUT OR REACH THEIR QUOTA LIMITS, OR BECAUSE GUARANTORS
ARE UNABLE TO MEET THEIR COMMITMENTS, THE FUND SHOULD MAKE
A SPECIAL CALL UP FROM COUNTRIES WHICH HAVE NOT REACHED THEIR
QUOTA LIMITS, WITH NO OPTING-OUT PERMITTED. IF THE LOAN HAS
BEEN FINANCED BY DIRECT CONTRIBUTIONS THE PROBLEM COULD BE
EASED BY REQUESTING THE CREDITORS OF THE FUND TO FOREGO RE-
PAYMENTS UNTIL A SOLUTION IS FOUND. BUT, IF THE FINANCING
HAS BEEN THROUGH BORROWING IN THE CAPITAL MARKETS, FUNDS WOULD
HAVE TO BE CALLED UP IMMEDIATELY.

IT IS FURTHER AGREED THAT, GIVEN THE BASIC PRINCIPLE
THAT ALL PARTICIPANTS SHARE IN THE ULTIMATE DEFAULT RISKS IN
PROPORTION TO QUOTAS, IT IS DESIRABLE THAT THERE SHOULD BE A
GRADUAL MOVE IN THAT DIRECTION DURING THE FUND'S LIFETIME.
CONSEQUENTLY, FOLLOWING ANY DELAY OR DEFAULT IN REPAYING LOANS,
THERE WILL BE ARRANGEMENTS, TO CHANNEL REPAYMENTS
RECEIVED BY THE FUND TOWARDS COUNTRIES WHICH ARE FINANCING
MORE THAN THEIR SHARE IN THE ULTIMATE DEFAULT RISKS AND, IF
NECESSARY, TO CALL UP FUNDS FROM COUNTRIES WHICH ARE FINANCING
LESS THAN THEIR SHARE.

CURRENCY DENOMINATION AND INTEREST RATES

IT IS IMPRACTICAL TO LAY DOWN, IN ADVANCE, PRECISE
TERMS CONCERNING CURRENCY DENOMINATION AND INTEREST RATES.
THE GOVERNING COMMITTEE WILL DETERMINE THEM IN THE LIGHT OF
CONDITIONS AT THE TIME. HOWEVER, THE MAIN CONSIDERATIONS TO
BE TAKEN INTO ACCOUNT ARE INDICATED IN THE OUTLINE.

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THE GROUP NOTES THAT, IF IT IS NOT POSSIBLE TO DE-NOMINATE THE FUND'S BORROWING AND LENDING, FOR A PARTICULAR OPERATION, IN A SINGLE CURRENCY, OR UNIT OF ACCOUNT, THIS WILL GREATLY COMPLICATE THE FUND'S OPERATIONS AND, IN PARTICULAR, MAKE IT DIFFICULT TO DETERMINE THE EQUIVALENT VALUES OF ITS ASSETS AND LIABILITIES.

SOME MEMBERS CONSIDER THAT, GIVEN THE ROLE OF THE SUPPORT FUND AS A SAFETY NET, ITS LOANS SHOULD BEAR INTEREST AT RATES SOMEWHAT HIGHER THAN THOSE AT WHICH FIRST CLASS BORROWERS CAN OBTAIN FUNDS IN THE CAPITAL MARKETS. CONSEQUENTLY, THEY REGARD IT AS NORMAL AND DESIRABLE THAT THERE SHOULD BE A SMALL SPREAD BETWEEN LENDING AND BORROWING RATES IN FAVOUR OF THE FUND ; OTHERS CONSIDER THIS UNNECESSARY.

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C O N F I D E N T I A L SECTION 11 OF 11 BRUSSELS 10233

LIMDIS GREENBACK

PASS FRB FOR SOLOMON

TREASURY FOR ASSISTANT SECRETARY COOPER

INSTITUTIONAL ARRANGEMENTS AND DECISION-MAKING

THE MAJORITY OF THE GROUP AGREES IN GENERAL TERMS WITH THE ARRANGEMENTS SET OUT IN THE OUTLINE INCLUDING WEIGHTED MAJORITY VOTING AND A TWO-TIER STRUCTURE WITH A PLENARY

GOVERNING COMMITTEE AND A SMALL MANAGING BOARD. ONE OR TWO MEMBERS OF THE GROUP RESERVED THEIR POSITION ON THE QUESTION OF WEIGHTED VOTING. SOME FEEL THAT IT MIGHT NOT BE NECESSARY TO HAVE THE MANAGING BOARD AS WELL AS THE GOVERNING COMMITTEE, BUT OTHERS CONSIDER THAT THIS WOULD BE ESSENTIAL FOR EFFICIENT OPERATION OF THE AGREEMENT. ONE OR TWO ALSO SUGGEST THAT MEMBERS OF THE MANAGING BOARD SHOULD BE APPOINTED IN THEIR CAPACITY AS EXPERTS RATHER THAN AS GOVERNMENT OR CENTRAL BANK REPRESENTATIVES.

IT IS AGREED THAT IN PREPARING ITS RECOMMENDATIONS, THE MANAGING BOARD WOULD NOT NORMALLY REQUIRE FORMAL OPINIONS FROM OTHER BODIES. IT WOULD BE UP TO THE MANAGING BOARD TO JUDGE, ON THE BASIS OF ITS KNOWLEDGE OF THE WORK OF OTHER

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BODIES OF THE O.E.C.D. AND OUTSIDE THE O.E.C.D., WHETHER THE BORROWER WAS FOLLOWING SATISFACTORY POLICIES IN THE SECTOR CONCERNED. IN THIS CONNECTION, APPROPRIATE ARRANGEMENTS WILL BE MADE FOR LIAISON WITH THE MANAGING DIRECTOR OF THE I.M.F., THE B.I.S. AND THE COMMISSION OF THE E.E.C. INCLUDING INVITATIONS TO THEIR REPRESENTATIVES TO ATTEND MEETINGS.

ENTRY INTO FORCE AND PROVISIONAL APPLICATION

AN AGREEMENT OF THIS KIND WOULD REQUIRE LEGISLATIVE RATIFICATION IN VIRTUALLY ALL PARTICIPATING COUNTRIES, AND THERE IS CONCERN THAT THIS MIGHT UNDULY DELAY THE IMPLEMENTATION OF THE ARRANGEMENTS. IT HAS BEEN SUGGESTED, HOWEVER, THAT IT MIGHT BE POSSIBLE TO DRAW UP A PROTOCOL OF PROVISIONAL APPLICATION UNDER WHICH THE AGREEMENT COULD BEGIN TO OPERATE IMMEDIATELY, OR A FEW MONTHS LATER, POSSIBLY WITH ONLY PART OF ITS POTENTIAL CAPACITY. THIS WOULD DEPEND ON THE EXTENT TO WHICH COUNTRIES WERE ABLE, EITHER TO UNDERTAKE THE FINANCIAL COMMITMENTS ON THE RESPONSIBILITY OF THE GOVERNMENT (OR THROUGH THE CENTRAL BANK) BEFORE OBTAINING RATIFICATION BY THE LEGISLATURE, OR TO OBTAIN PARLIAMENTARY RATIFICATION WITHIN ONLY A FEW MONTHS.

LIQUIDATION

THE WORKING GROUP CONSIDERED BRIEFLY SOME PROVISIONS CONCERNING LIQUIDATION BASED ON THOSE USED IN THE E.P.U. THESE PROVISIONS, WHICH DO NOT APPEAR TO POSE ANY PARTICULAR PROBLEM, WOULD CONVERT EACH PARTICIPANT'S CLAIM OR DEBT TO THE SUPPORT FUND INTO A SERIES OF BILATERAL CLAIMS OR DEBTS SPREAD OVER ALL THE OTHER PARTICIPANTS.

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